



**TEXAS COUNTY PUBLIC WATER SUPPLY DISTRICT #2
YEAR ENDED DECEMBER 31, 2002**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2004-38
May 11, 2004
www.auditor.mo.gov**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

May 2004

The following problems were discovered as a result of an audit conducted by our office of the Texas County Public Water Supply District #2.

The Texas County Public Water Supply District #2 (district) did not solicit proposals for professional services. The district has appointed an individual to act as the district's contractor for installing water mains and other services such as installing water meters, turning on and shutting off water service, backhoe services, and maintaining and repairing the district's infrastructure. The district paid over \$30,000 to this individual in 2002, and paid over \$194,000 from July 2000 to December 2001, for the installation of approximately 15,800 feet of 6-inch waterline and 4,250 feet of 8-inch waterline. There is no documentation of when the district last solicited competitive proposals for these services and the district does not have a written agreement for these services. Additionally, the district does not have a formal bidding policy. In 2002, the district paid over \$16,000 and \$6,000 to two vendors, respectively, for inventory and supply items, without maintaining bid documentation.

The district paid \$610 to a board member for lawn mowing services during the year ended December 31, 2002. State law prohibits a member of a governing body from performing any service for that political subdivision for any consideration other than the compensations he gets for his official duties.

The annual district Christmas dinners for board members and the district's clerk, treasurer, attorney and contractor, as well as spouses and children do not appear to be a prudent, reasonable or necessary use of public funds. For 2002, 2001, and 2000, the district spent a total of over \$1,100 for these dinners. The district also paid certain expenses of its contractor, such as fees for conferences and water treatment certification. These payments do not appear to be a necessary cost of operating the district.

The district's budgets are not prepared in accordance with state law. A budget message, actual receipts and disbursements for the two preceding budget years, and the beginning and estimated ending available resources are not presented. Additionally, the district does not obtain an annual audit as required by its by-laws and state law.

The duties of cash custody and record keeping are not adequately segregated and the Board does not provide adequate supervision or review of the work. In addition, not all persons handling district funds are bonded and controls over district checks and receipts need to be improved. Also, the petty cash fund is not operated on an imprest basis.

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YELLOW SHEET

The district does not periodically review the adequacy of the water rates billed to customers and has not revised the water rates since 1990. The district should prepare a statement of costs which would allow the district to determine the rate necessary to support current and future operations, as well as providing documentation to customers of the rationale behind the rates. Additionally, the district does not investigate large water losses reported on its monthly reports.

The audit also includes some matters related to procedures concerning outstanding checks, bonuses, time sheets and leave, receivables, and property records upon which the district should consider and take appropriate corrective action.

All reports are available on our website: www.auditor.mo.gov

TEXAS COUNTY PUBLIC WATER SUPPLY DISTRICT #2

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS.....	4-16
<u>Number</u>	<u>Description</u>
1.	Expenditures5
2.	Budgets and Audits9
3.	Internal Controls, Procedures, and Records10
4.	Water System Concerns14
5.	Property Records15
HISTORY AND ORGANIZATION	17-18

STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Board of Directors
Texas County Public Water Supply District #2

The State Auditor was petitioned under Section 29.230, RSMo, to audit the Texas County Public Water Supply District #2. The district engaged Verkamp & Malone, LLC, Certified Public Accountants (CPA), to review the district's financial statements for the year ended December 31, 2002. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit of the district included, but was not necessarily limited to, the year ended December 31, 2002. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review internal controls over significant management and financial functions.
3. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the district, as well as certain external parties; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of petitioner concerns and performed various procedures to determine their validity and significance.
2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.
3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the

provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the district's management and was not subjected to the procedures applied in the audit of the district.

The accompanying Management Advisory Report presents our findings arising from our audit of the Texas County Public Water Supply District #2.

A handwritten signature in black ink that reads "Claire McCaskill". The signature is written in a cursive, flowing style.

Claire McCaskill
State Auditor

November 21, 2003 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA
Audit Manager: Toni M. Crabtree, CPA
In-Charge Auditor: Becky Webb

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

TEXAS COUNTY PUBLIC WATER SUPPLY DISTRICT #2
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1.	Expenditures
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The Texas County Public Water Supply District #2 (district) does not have a formal bidding policy and did not solicit proposals for professional services. In addition, the district paid bonuses and entered into transactions with a board member. Also, some expenditures did not appear to be a prudent, reasonable, or necessary use of public funds.

- A. The district does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. Bids were either not solicited or bid documentation was not retained for the purchase of inventory and supplies. In 2002, the district paid over \$16,000 and \$6,000 to two vendors, respectively, for inventory and supply items. According to district officials, they take phone bids on many purchases, but do not maintain the documentation.

Formal bidding procedures for major purchases provides a framework for economical management of the district's resources and help ensure the district receives a fair value by contracting with the lowest or best bidder. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in the district's business. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids and proposals received and reasons noted why a bid or proposal was selected.

- B. The district did not solicit requests for proposals for its professional services and did not have written agreements for these services.
- The district has appointed an individual to act as the district's contractor for installing water mains and other services such as installing water meters, turning on and shutting off water service, backhoe services, and maintaining and repairing the district's infrastructure. The district paid over \$30,000 to this individual in 2002. In addition, the district paid this contractor over \$194,000, from July 2000 to December 2001, for the installation of approximately 15,800 feet of 6-inch waterline and 4,250 feet of 8-inch waterline. The district has used the same individual for many years. Although the district obtains a yearly quote, there is no documentation of when the district last solicited competitive proposals for these services. Also, the district does not have a written agreement for these services.

In addition, the district pays certain expenses of its contractor. From January 2002 to March 2003, the district paid over \$500 for his registration fees at various conferences sponsored by water associations and for his water treatment certification with the Department of Natural Resources. Also, for many years the district's contractor has received a \$100 Christmas bonus. The district had no documentation to indicate why the district paid these other non-specified expenses and bonuses to and/or on behalf of the contractor. These payments do not appear to be a necessary cost of operating the district and constitute a questionable use of public funds.

- In 2002, the district paid approximately \$4,200 (28 hours times \$150 per hour) to an individual to serve as its attorney. This individual has been the district's attorney for a number of years, and there is no documentation of proposals being solicited or a written agreement for these services.

Soliciting proposals for professional services help provide a range of possible choices and allows the district to make a better-informed decision to ensure necessary services are obtained from the best qualified vendor at the lowest and best cost.

In addition, Section 432.070, RSMo 2000, requires contracts for political subdivisions be in writing. A written contract, signed by the parties involved, should specify the goods or services to be provided and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties, rights, and responsibilities and to provide protection to all parties.

- C. The district's payment of Christmas bonuses appears to be in violation of the state constitution. For many years, the district has cashed a check and given a \$100 cash Christmas bonus to the clerk and treasurer. These bonuses represent additional compensation for services previously rendered and, as such, are in violation of Article III, Section 39 of the Missouri Constitution and Attorney General's Opinion No. 72, 1955 to Pray, which states "...a governmental agency deriving its power from the Constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officials after the service has been rendered."
- D. The district paid \$610 to a board member for lawn mowing services during the year ended December 31, 2002. Section 105.458, RSMo 2000, provides that a member of a governing body is prohibited from performing any service for that political subdivision for any consideration other than the compensations he gets for his official duties. Although the board member was not re-elected in April 2003, he continues to mow the lawn for \$50 per service. The district should refrain from entering into transactions with board members.

- E. The district has not established procedures to ensure payments totaling greater than \$600 in one year to non-employees and unincorporated business are properly reported to the Internal Revenue Service as required. For calendar year 2002, the district did not report all applicable payments to the board member for lawn mowing services or to its attorney on 1099-Misc forms as required by the Internal Revenue code. Section 6041 to 6051 of the Internal Revenue Code requires that non-wage payments of at least in \$600 in one year to an individual or unincorporated business be reported to the federal government on 1099-Misc forms.
- F. Some expenditures did not appear to be a prudent, reasonable, or necessary use of public funds. These include:
- The district holds annual Christmas dinners at local restaurants for board members and the district's clerk, treasurer, attorney and contractor, as well as spouses and children. For 2002, 2001, and 2000, the district spent a total of over \$1,100 for these dinners.
 - The district periodically orders flowers from a local florist for the clerk to celebrate secretary's day and for hospitalization or funeral services for board members, the clerk or their family members. From December 2001 to August 2003, these flower expenditures totaled over \$170.

These expenditures do not appear to be necessary costs of operating the district and constitute a questionable use of public funds. In addition, the Missouri Constitution prohibits the use of public money or property to benefit any private individual, associations, or corporations, except as provided in the constitution. The district's residents have placed a fiduciary trust in their public officials to expend public funds in a necessary and prudent manner. The Board should evaluate the propriety of spending public funds on these types of expenditures.

WE RECOMMEND the Board of Directors:

- A. Establish formal bidding policies and procedures, with provisions for documentation of the justification for selecting and rejecting bids or proposals.
- B. Solicit proposals for professional services. The proposals should be formally evaluated and retained. In addition, written contracts should be prepared to formalize the agreements. Also, the board should ensure expenditures are limited to those necessary to support the operations of the district.
- C. Discontinue the payment of bonuses.
- D. Refrain from entering into transactions with board members.

- E. Establish procedures to ensure payments totaling greater than \$600 in one year to non-employees and unincorporated business are properly reported to the Internal Revenue Service as required.
- F. Ensure all expenditures are necessary and a prudent use of public funds and do not violate the constitution.

AUDITEE'S RESPONSE

As of April 2004 board elections, none of the same board members who served on the board in 2002 (the period of this audit) will hold board seats. Two new board members will be added, and the board will have to appoint an individual to fill an existing vacancy. It is unusual for a water district to have an entirely new board and the new board will need an opportunity to address many of the points brought out in the audit, as well as to familiarize themselves with the day to day operations of the water district. The auditee's responses reflect the fact that the incoming board will need to review these comments and work together to adopt new policies if necessary and that the current board cannot require that they carry out future actions.

- A. *The current board intends to require that documentation on phone bids will be maintained and to clarify the types and dollar amounts of items for which competitive quotes will be obtained. It is possible that the incoming board members will adopt a further policy in the future.*
- B. *The District solicits a yearly quote from the contractor who has done work for the District for several years and will continue to do so. The District has a letter on file from its legal counsel which sets out the hourly rate. The incoming board will need to confer with legal counsel to explore whether or not any formalized written agreements beyond the existing documents for professional services are required.*
- C. *Under Chapter 247 RSMo, the District is required to appoint both a clerk and a treasurer. The District employee was appointed by the board to serve as clerk. The District agrees that it should not pay a bonus to the clerk or the treasurer because they are public officials. However, the incoming board will have to decide whether or not it will continue to pay a Christmas bonus to the District employee in her capacity as an employee rather than in her capacity as a District clerk.*
- D. *The current board agrees and will not enter into transactions with acting board members in the future.*
- E. *The incoming board will need to review this matter with the District's independent auditor and discuss a revision of its policy accordingly.*
- F. *The current board feels its present procedures are adequate.*

The district does not prepare budgets in accordance with state law. Additionally, the district did not obtain an audit of its financial statements for the year ended December 31, 2002.

- A. Budgets are not prepared in accordance with state law. The district only prepares a statement of income and expenses, which includes a budget amount, for its loan from the United States Department of Agriculture, Rural Development. These financial statements do not include a budget message, actual (or estimated for the years not yet ended) receipts and disbursements for the two preceding budget years, or the beginning and estimated ending available resources. Section 67.010, RSMo 2000, requires the preparation of an annual budget which should present a complete financial plan for the ensuing budget year and sets specific guidelines for the format of the annual operating budget.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for the district's operations. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted to actual disbursements. A complete budget should include separate revenue and disbursement estimations, and include the beginning available resources and reasonable estimates of ending available resources. The budget should also include a budget message and comparisons of actual revenues and disbursements for the two preceding fiscal years.

- B. The district does not obtain an annual audit as required by state law. The district contracted with an independent auditor to perform a review of its financial statements for the year ended December 31, 2002 and to perform an audit of its financial statements for the year ended December 31, 2001.

However, Section 247.080.2, RSMo 2000, and district by-laws provide that an annual audit of the district's receipts and expenditures be performed.

WE RECOMMEND the Board of Directors:

- A. Prepare complete and accurate annual budget documents that contain all information required by state law.
- B. Obtain an annual audit as required by state law and district by-laws.

AUDITEE'S RESPONSE

- A. *The incoming board will need to review its budget-making procedures with its independent auditor and legal counsel and revise its budget process accordingly. The District's budget process currently complies with USDA Rural Development's budget criteria, and in fact, USDA Farmer's Home set up this budget process.*
- B. *The incoming board will need to contract with an independent auditor to perform yearly audits, instead of having audits conducted every third year with a review of its financial statements on intervening years, as it does now.*

3. Internal Controls, Procedures, and Records
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The district needs to improve its internal controls, procedures, and records. Bond coverage is not adequate and the petty cash fund is not operated on an imprest basis. Also, time sheets are not prepared and records are not maintained for leave earned and/or taken.

- A. The duties of cash custody and record keeping are not adequately segregated. The clerk performs all accounting functions including reading water meters, preparing bills, receiving and making deposits, recording collections, preparing disbursements, and reconciling the bank account. The Board does not provide adequate supervision or review of the work performed by the clerk. The current procedures jeopardize the system of independent checks and balances.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls could be improved by segregating duties to the extent possible. If proper segregation of duties is not feasible, timely supervisory or independent review of work performed and investigation into unusual items and variances is necessary.

- B. Bond coverage for district officials is not adequate. Section 247.080.4, RSMo 2000, provides that all persons handling district funds be bonded. Only the treasurer is bonded. However, the president co-signs all checks and the clerk receives and records receipts. The district should obtain bond coverage in accordance with state law. In addition, the failure to bond all persons with access to assets exposes the district to the risk of loss.
- C. Controls over district checks need to be improved. Section 247.100.3, RSMo 2000 and the district's by-laws provide that the treasurer be the custodian of the district's funds and that checks be signed by the president and clerk. However, the clerk prepares all checks which are signed by the president and treasurer. In addition, checks are sometimes signed in advance by the president. Signing

checks in advance does not allow for proper review of the documentation to support the disbursement and diminishes the control provided by dual signatures.

The treasurer should prepare district checks to be signed by the president and clerk. Additionally, checks should not be signed in advance.

- D. The district needs to improve its control over receipts. The district receives cash and checks for the payment of water bills. The billing stubs which accompany the payment serve as the district's initial record of receipts; however, the method of payment (cash, check, money order) is not recorded.

To ensure the proper handling and safeguarding of district monies, the method of payment should be indicated on the billing stubs and the composition of receipts should be reconciled to the composition of bank deposits.

- E. The district has not established procedures to follow-up on checks which have been outstanding for a considerable length of time. In February 2003, the district wrote-off outstanding checks, totaling over \$300, and several of these checks were over 10 years old. These checks were refunds of water deposits when a customer terminated service. No further follow-up action was taken beyond mailing the refund to the last known address.

Outstanding checks should be periodically reviewed to determine if the payee can be readily located and if there is a need to reissue the check. If the payee cannot be located, Sections 447.500 to 447.595, RSMo, which relates to unclaimed property, should be used to disburse these funds.

- F. Month-end accounts receivable listings are not reconciled to the beginning accounts receivable balance, plus monthly billings, less collections and adjustments. In addition, the manual listing of accounts receivable is not always updated as payments are received. A payment, totaling \$100, received in December 2002 was not recorded on the listing as of April 2003.

Monthly reconciliations are necessary to ensure that all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected on a timely basis. Complete documentation of these reconciliations should be retained to support conclusions and any corrections made, and to facilitate independent reviews.

- G. The petty cash fund is not operated on an imprest basis. District checks are written to petty cash, as needed, and a specific balance is not maintained. Although invoices are maintained for most disbursements, there is no reconciliation to cash on hand and a balance. From December 2001 to July 2003, over \$1,300 was transferred to petty cash. In addition, the fund is not reviewed by a person independent of the accounting process.

The petty cash fund should be operated on a imprest basis, meaning that cash and invoices should always total the established balance, and checks issued to replenish the fund should always equal the amount of invoices. Periodically, the funds should be counted and reconciled to the imprest balance by an independent person to ensure the funds are being accounted for properly, to detect errors, and to prevent these monies from being misused.

- H. The district needs to close the bank account established for the sewer system and transfer the funds to the water account. At December 31, 2002, the balance of this account was over \$1,800. According to district records, from May 2000 to October 2002, the district paid expenses totaling over \$13,000 on behalf of the sewer system with water district funds.

Several years ago the district received donations to pay some of the expenses for establishing a sewer system; however, the district has since decided not to build this system. Also, the district spent funds related to this proposed sewer system, with the understanding that the sewer system would repay the funds. Thus, transferring the sewer system funds to the district would compensate the district for some expense related to the sewer system.

- I. Time sheets are not prepared and records are not maintained for leave earned and/or taken. According to the clerk, the district's informal policy allows her one week of leave per year.

Time sheets are necessary to document hours actually worked, substantiate payroll expenditures and provide the board with a method to monitor hours worked. The board should require detailed time sheets be prepared of actual time worked and leave taken. Accurate and properly maintained leave records also provide necessary assurance that the district's leave policy is being followed. In addition, the district should adopt a written leave policy.

WE RECOMMEND the Board of Directors:

- A. Segregate the duties of receipting and depositing monies from that of preparing bills, recording payments, and following up on delinquent accounts. If duties cannot be adequately segregated, timely supervision or independent review of work performed and investigation into unusual items and variances is necessary.
- B. Obtain bond coverage for all persons with access to district funds.
- C. Appoint the treasurer as custodian of district's funds. In addition, checks should be signed by the clerk and president and the practice of signing blank checks should be discontinued.
- D. Record the method of payment received on corresponding billing stubs and reconcile the composition of receipts to bank deposits.

- E. Establish procedures to follow-up on old outstanding checks and reissue them if the payee can be located. Any unclaimed amounts should be disbursed in accordance with state law.
- F. Require monthly accounts receivable listings be reconciled to beginning accounts receivable, plus billings, less collections and adjustments. Any differences which cannot be accounted for should be investigated.
- G. Establish an imprest amount for the petty cash fund and ensure the fund is periodically counted and reconciled to the imprest balance by an independent person.
- H. Close the sewer system bank account and transfer the funds to the water account.
- I. Require time sheets be prepared which reflect actual time worked and leave taken. In addition, the board should adopt a formal written leave policy and maintain leave records in a manner that provides a complete record of the amount of leave earned, taken, and any accumulated balances.

AUDITEE'S RESPONSE

- A. *Due to the fact that the District has only one employee and that previous independent audits and financial reviews have never revealed any loss or misuse of funds, the current board does not find that it is feasible to segregate the employee's duties. In order to address concerns over future loss or misuse of funds, the incoming board will need to conduct an independent audit annually as set forth above in 2.B.*
- B. *The District is in the process of adding the necessary bond coverage for district officials who have access to District funds. The District employee/clerk was previously covered by the existing policy according to the District's insurance company, even though the insurance company failed to reflect that on the policy.*
- C. *The District is in the process of correcting its policy so that the president and clerk sign all checks and the treasurer is custodian of all District funds. Certain on-going expenditures, such as postage for bills and water samples must be incurred prior to monthly meetings but documentation for such expenditures will continue to be maintained and reviewed.*
- D. *The incoming board will need to review its policy on deposit of receipts with an independent auditor and legal counsel and discuss a revision of its policy accordingly.*
- E. *The District relied on the recommendation of its independent auditor in handling outstanding checks for the refund of water deposits to customers who have moved out of the area. The District has no way of locating such individuals beyond using the last known address. The incoming board will need to review the unclaimed property statutes with legal counsel and discuss a revision of its policy accordingly.*

- F. *Due to the fact that the District has only one employee and that previous independent audits and financial reviews have never revealed any loss or misuse of funds, the current board does not know if it is feasible to conduct reconciliations of monthly accounts receivable listings. Quarterly reconciliations are currently conducted, but the incoming board will need to review this matter with its independent auditor and discuss a revision of its policy accordingly.*
- G. *The District's independent auditor reviews the petty cash fund annually, and no discrepancies have been noted. Receipts are attached to any checks written and at this time, the current board feels its present procedures are adequate, although the incoming board will need to review them with its independent auditor and discuss a revision of its policy accordingly.*
- H. *The sewer system bank account is in the process of being closed and the funds transferred to the water account.*
- I. *The District's employee is a salaried employee not an hourly employee, so time sheets would not be feasible. The incoming board will need to adopt a written policy on leave taken and accrued.*

4.

Water System Concerns

The district does not investigate significant water losses. In addition, water rates have not been reviewed since 1990.

- A. The district does not investigate large water losses reported on its monthly reports. These reports record total gallons of water produced and total gallons of water billed to customers. During the year ended December 31, 2002, the monthly water loss reported was over 20 percent for six (nonconsecutive) months, with one of these months recording a loss of 46 percent.

To help detect significant water loss on a timely basis and to help ensure all water usage is properly billed, the district should investigate significant differences between the number of gallons of water produced and the number of gallons of water billed. The Public Service Commission generally recommends such differences be investigated if unbilled water usage exceeds 15 percent.

- B. The district does not periodically review the adequacy of the water rates billed to customers and has not revised the water rates since 1990.

Water rates are user charges which should cover the costs of providing related service and maintenance to the system. The rate should not be set at a level which results in excessive fund balances. However, the district's cash balance has decreased each year, for several years. It appears that the decrease is due to loan payments.

The district should perform a detailed review of its water costs, including depreciation, and establish a rate to cover the total costs of operations. In addition, the district should prepare a statement of costs as required by Section 67.042, RSMo 2000. Preparation of a statement of costs would allow the district to determine the rate necessary to support current and future operations, as well as providing documentation to customers of the rationale behind the rates.

WE RECOMMEND the Board of Directors:

- A. Ensure the difference between the total gallons of water billed and the total gallons of water produced is reviewed on a monthly basis. Any significant differences should be investigated.
- B. Review water rates periodically to ensure sufficient revenues are generated to adequately maintain the system.

AUDITEE'S RESPONSE

- A. *In 2002, the District installed new water lines, including an 8" water line which required repeated flushing in order to be used. Water losses above 20% are unusual for the District and the District was aware of the reason for the losses, due to the fact that the District is routinely updated by the District employee and the general contractor at monthly meetings about the causes for any excessive water loss. However, this discussion is not documented in the minutes. The incoming board will need to review the policy and decide whether or not to implement additional research into future water losses.*
- B. *The incoming board needs to conduct a rate study and to act according to the results of that study. In addition, the incoming board needs to review rates annually.*

5.

Property Records

Various problems were noted regarding the district's capital assets records and related procedures. The district does not maintain complete records to account for all property owned by the district and some inventory is stored at the contractor's place of business. In addition, an annual physical inventory of property is not performed

- A. The capital asset records are not complete and/or accurate. Property is not tagged for specific identification and a specific location is not identified. In addition, the district maintains some inventory at the contractor's place of business. By storing inventory items at the contractor's place of business, the district has less control over assets and is more susceptible to loss or misuse of assets. The district should consider storing inventory items on district property.

The property records should include a detailed description of the asset including the name; description; make and model number, if applicable; asset identification number; the physical location of the asset; and the date and method of disposition, if applicable.

- B. An annual physical inventory of the capital assets is not performed. Annual physical inventories are necessary to ensure the property records are accurate, identify any unrecorded addition and deletions, and detect the loss, theft, or misuse of assets. The district should conduct annual physical inventories and reconcile the results of the inventories to the detailed property records.

Adequate capital asset records are necessary to secure better internal controls and safeguard district assets that are susceptible to loss, theft, or misuse. In addition, the controls would be improved if inventory items were stored on district property, not at the contractor's place of business.

WE RECOMMEND the Board of Directors:

- A. Maintain detailed capital asset records that include all pertinent information for each asset including description, cost, acquisition date, identification number, location, and date and method of disposition, if applicable. In addition, inventory items should be stored on district property.
- B. Require annual physical inventories be conducted. The physical inventories should be reconciled to the detailed capital asset records.

AUDITEE'S RESPONSE

- A. *The District does not have a facility which allows it to store inventory on District property. However, the incoming board will need to review its methods of tracking capital assets with its independent auditor and discuss a revision of its policy accordingly. The reality is that the District is comparatively small and other than a few tools and small pieces of portable equipment, the District does not own many capital assets and the District employee is able to account for the location of those items.*
- B. *The incoming board will need to review its methods of conducting physical inventories with its independent auditor and discuss a revision of its policy accordingly.*

HISTORY AND ORGANIZATION

TEXAS COUNTY PUBLIC WATER SUPPLY DISTRICT #2
HISTORY AND ORGANIZATION

The Texas County Public Water Supply District #2 was incorporated in 1965 and serves approximately 545 customers.

The Board of Directors consists of five members who serve three-year terms. The Board elects a President and Vice-President from the board membership and appoints a clerk and treasurer for the district. The Board of Directors, and other principal officials during the year ended December 31, 2002, are identified below.

Elected Officials	Term Expires	Compensation Paid for the Year Ended December 31, 2002
Travis Cross, President (1)	May 2003	\$ 0
George Boesl, Vice-President (2)	May 2004	0
Roger Martin, Board Member (3)	May 2005	0
James Root, Board Member (4)	May 2004	0
Jackie Cooper, Board Member (5)	May 2003	610

Other Principal Officials

Mary Ann Cooper, Clerk	21,100 (6)
Joyce Campbell, Treasurer	100 (6)

- (1) Replaced by Marvin Adams in the April 2003 election. Mr. Adams' term expires in May 2006.
- (2) Replaced by Leon Stogsdill in the April 2004 election. Mr. Stogsdill's term expires in May 2007.
- (3) Mr. Martin resigned in February 2004.
- (4) Replaced by Reggie Cole in the April 2004 election. Mr. Cole's term expires in May 2007.
- (5) Replaced by Kent Swearingin in the April 2003 election. Mr. Swearingin's term expires in May 2006. Mr. Cooper received compensation for lawn mowing services.
- (6) Includes \$100 Christmas bonus.